NEWMEX MINERALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2003
(with comparative statements for 2002)

NEWMEX MINERALS INC.
Management Discussion and Analysis
for the year ended September 30, 2003

This Management's Discussion and Analysis may contain forward looking statements and information. Forward looking statements are statements that are not historical fact and are generally identified by words such as "believe", "expects", "projects" and words of similar connotation. Forward-looking statements are subject to various risks and uncertainties, many of which are difficult to predict, and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward looking statements. Risks and uncertainties include, but are not limited to, risk with respect to general economic conditions, growth of the Company's markets, property values, regulations and taxes, civil unrest, corporate restructuring and related costs, capital and operating expense savings and continued pricing pressure on loan and deposit products. Readers are cautioned not to place undue reliance on these forward looking statements.

The Company does not undertake to update or re-issue the forward-looking statements that may be contained herein, whether as a result of new information, future events or otherwise.

Overview

Newmex Minerals Inc. is a Calgary based junior mining company trading on the TSX Venture Exchange under the symbol "NMM".

Business Strategy

Newmex's business strategy has been to manage the two significant assets the Company currently has in order to maximize the ability to generate further capital for deployment into new projects or to seek a partner which can provide the proper capital required to realize its properties' potential. The Company's parent, Proprietary Industries Inc., has indicated they no longer wish to support this program. Therefore management is seeking a purchaser for the Zeballos property and/or the Company. The carrying value of the property was written down in fiscal 2003 to $200,000.

As previously discussed management determined after completing a review of its property portfolio that it was best to abandon its non-Canadian mining projects. During the year ended September 30, 2003 the company continued divestiture of its Golden Phoenix Minerals Inc. securities. The Company continues this divestiture program to fund the repayment of the Company's indebtedness.

Results for the year ended September 30, 2003

Net loss for the year was $423,725 versus net loss of $2,423,324 for the year ended September 30, 2002

The decrease in net loss for the year is due to three factors, (1) a higher foreign exchange gain as a result of the strengthening of the Canadian dollar during the year, (2) lower consulting and professional fees, and (3) a lower write-down in fiscal 2003 related to mineral properties. The foreign exchange gain arises from the conversion of the Company's indebtedness to EnerGCorp, Inc., a subsidiary of the Company's parent. The reduced consulting and professional fees is due to the support provided by Proprietary through provision of management services, office facilities and administration at significantly reduced costs.

Financial Condition, Liquidity and Capital Resources

As at September 30, 2003 the Company had a working capital deficiency of $1,168,373 which was a reduction of $1,263,412 from the $2,431,785 deficiency at September 30, 2002. This decrease was due to the continued orderly sale of the Company's investment and the release of the restriction on previously restricted shares in Golden Phoenix, with the proceeds being utilized to pay ongoing operating costs along with repaying the Company's indebtedness.

The Golden Phoenix investment has increased significantly in value over the last year as Golden Phoenix announced the commencement of mining operations at its Mineral Ridge property. As a result its share price increased to a closing price of U.S. $0.45 per share on September 30, 2003 from a closing price of U.S. $0.18 per share on March 31, 2003. The shares are currently trading at approximately U.S. $0.40 per share. As a result Management believes that sufficient proceeds will be realized from the sale of the Golden Phoenix to satisfy substantially all of its indebtedness. The Company will then be left with the Zeballos property and Management is seeking a purchaser for the property and/or the Company.

Subsequent to year end, the Company has realized approximately U.S. $400,000 as proceeds on the of some of the Golden Phoenix shares. In February of 2004 it repaid U.S. $400,000 of the EnerGCorp advances.

Share Capital

As of September 30, 2003, the Company has issued and outstanding 8,278,694 common shares. This includes 2,582,875 common shares owned by Proprietary, which are subject to escrow. Proprietary and the Company have agreed to seek to have them cancelled. This will reduce Proprietary's ownership percentage from 68% to 53%. The Company has no outstanding stock options to purchase common shares as the 75,000 options outstanding at September 30, 2002 expired in the current year without being exercised.

Mintz & Partners LLP

AUDITORS' REPORT

To the Shareholders of
Newmex Minerals Inc.

We have audited the consolidated balance sheets of Newmex Minerals Inc. as at September 30, 2003 and 2002 and the consolidated statements of earnings and deficit and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2003 and 2002 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Mintz + Partners LLP

December 2, 2003
Toronto, Ontario

CHARTERED ACCOUNTANTS

NEWMEX MINERALS INC.
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30

		2003		2002
Assets				
Current assets				
Cash	$	126,912	$	220,554
Accounts receivable		-		4,526
Prepaid expenses, deposits and sundry		35,052		38,794
Marketable securities (Note 4)		1,091,889		467,680
Notes receivable (Note 3)		-		-
		1,253,853		731,554
Long-term investments (Note 4)		-		974,337
Mineral properties and deferred costs (Note 5)		200,000		922,800
	$	1,453,853	$	2,628,691
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	108,884	$	95,379
Advances from parent company (Note 6)		290,946		445,700
Advances from EnerGCorp, Inc. (Note 6)		2,012,507		2,622,260
Income taxes payable		9,889		
		2,422,226		3,163,339
Shareholders' Deficiency				
Share capital (Note 7)		5,233,432		5,233,432
Contributed surplus (Note 2)		816,444		816,444
Deficit		(7,018,249)		(6,584,524)
		(968,373)		(534,648)
	$	1,453,853	$	2,628,691

Approved by the Board,

"Signed"
Patrick J. Lavelle, Director

"Signed"
James Bright, Director

NEWMEX MINERALS INC.
CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT
YEARS ENDED SEPTEMBER 30

		2003		2002
Interest income	$	**816**	$	147,614
Expenses				
Consulting fees		**25,814**		90,581
Insurance		**6,364**		5,381
Interest on parent company advances		**36,848**		141,312
Investor and public relations		**8,593**		25,838
Listing and filing fees		**-**		272
Exploration costs expensed		**23,335**		-
Mineral properties abandoned or impaired		**827,989**		2,665,969
Office		**7,275**		9,915
Professional fees		**41,441**		47,607
Amortization		**-**		251
		977,659		2,987,126
Loss before the following		**(976,843)**		(2,839,512)
Write-down of investment and notes receivable		**-**		(251,041)
Gain on disposal of long-term investments		**217,629**		128,165
Foreign exchange gain (loss)		**335,378**		(9,824)
		553,007		(132,700)
Loss before income taxes		**(423,836)**		(2,972,212)
Income taxes (recovery) (Note 8)		**9,889**		(548,888)
Net Loss for the year		**(433,725)**		(2,423,324)
Deficit, beginning of year		**(6,584,524)**		(4,161,200)
Deficit, end of year	$	**(7,018,249)**	$	(6,584,524)
Loss per share (Note 7)	$	**(0.05)**	$	(0.30)

NEWMEX MINERALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30

		2003		2002 (Restated – Note 10)
Operating activities				
Net loss for the year	$	(433,725)	$	(2,423,324)
Items not involving cash				
Mineral properties abandoned or impaired		827,989		2,665,969
Income taxes recovered		-		(541,445)
Amortization		-		251
Write-down of investment and notes receivable		-		251,041
Gain on disposal of long-term investment		(217,629)		(128,165)
Interest on parent-company advances		36,848		141,312
Foreign exchange gain		(335,378)		-
		(121,895)		(34,361)
Changes in non-cash balances related to operations (Note 9)		31,662		23,954
		(90,233)		(10,407)
Financing activities				
Advances repaid to parent company, net		(191,602)		(771,043)
Cash advances from (repaid to) EnerGCorp, Inc., net		(274,375)		51,858
Issuance of share capital		-		20,000
Cash flows used in investing activities		(465,977)		(699,185)
Investing activities				
Proceeds on disposal of long-term investments		567,757		506,321
Acquisition of mineral properties and deferred costs, net of recoveries		(105,189)		(281,319)
Repayment of notes receivable		-		700,515
		462,568		925,517
Net increase (decrease) in cash		(93,642)		215,925
Cash, beginning of year		220,554		4,629
Cash, end of year	$	126,912	$	220,554

1. Basis of presentation and nature of operations

(i) Going concern basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, an underlying assumption being that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

The continued existence of the Company is dependent upon continued advances from its parent company and/or EnerGCorp, Inc., an affiliated entity; its ability to obtain additional sources of capital through equity financing, or property dispositions to finance further acquisitions, exploration and development, and to meet obligations to preserve its interest in existing mineral properties.

Failure to obtain additional funding and/or capital as described above may result in financial difficulties which would make the use of the going concern assumption invalid. If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported expenses and the balance sheet classifications used.

The Company's parent has advised the Company that it will not be advancing any further funds and has requested repayment of the advances previously made.

(ii) Nature of operations

The Company is engaged in the business of mineral exploration and development. Since inception, the efforts of the Company have been devoted to exploration of natural resources and acquisition of mineral rights. The Company holds mineral properties but has yet to determine whether certain properties contain economically recoverable reserves. The recoverability of the amount shown for mineral properties and deferred costs is dependent on the existence of economically recoverable reserves, future profitable production from the mineral properties or proceeds generated from the sale of the properties. To date, no development projects have been completed, no production has commenced and no significant revenues have been earned.

2. Significant Accounting Policies

(i) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned inactive subsidiaries, Newmex Minerals USA Inc., and Newmex Nevada Inc.

(ii) Marketable securities

Marketable securities are valued at the lower of cost and market value.

(iii) Long-term investments

Long-term investments are carried at cost. When there is other than a temporary decline in value, the investments are written down to net realizable value.

2. Significant Accounting Policies - continued

(iv) Mineral properties and deferred costs

Mineral properties and deferred costs includes initial property acquisition costs, related property option payments, exploration and development costs and other costs directly related to specific properties. All administration overhead is expensed as incurred. All costs related to the exploration and development of mineral properties are deferred until commencement of commercial production.

When properties are developed to the stage of commercial production, mineral properties and deferred costs will be amortized on a unit-of-production basis over economically recoverable reserves.

Management periodically reviews the carrying values of mineral properties and deferred costs with external mining professionals. A decision to abandon, reduce or suspend activity on a specific project is based upon many factors including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral property leases, and the general likelihood that the Company will continue exploration on the project. The Company does not set a pre-determined holding period for properties with unproven reserves. However, based on the results at the conclusion of each phase of an exploration program, properties that are not suitable as prospects are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate.

If mineral property is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as mineral properties and deferred costs represent unamortized costs to date and do not necessarily reflect present or future values.

(v) Future site restoration costs

Future site restoration costs are provided based on management's best estimate of such costs and will be provided for on an anticipated unit-of-production basis as production occurs.

(vi) Measurement uncertainty

The valuation of notes receivable, mineral properties and deferred costs as well as provisions for site reclamation and restoration costs are based on management's best estimate of the recoverability of these amounts and management's best estimates of production.

By their nature, these estimates are subject to substantial measurement uncertainty, and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

2. Significant Accounting Policies - continued

(vii) Use of estimates

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles has required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at September 30, 2003 and 2002 and the revenues and expenses reported for the year then ended. Actual results may differ from those estimates.

(viii) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at the carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

(ix) Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada) (the "Act"). The Act provides that, where share issuance proceeds are used for exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the Company.

Share capital is reduced and a future income tax liability is recorded equal to the estimated amount of future income taxes payable by the Company as a result of the renunciations when the expenditures are made. Where at the time of issuance the Company has unrecorded net tax assets exceeding the deductions renounced, no future income tax liability is recorded.

(x) Stock options

The Company has a stock option plan as described in Note 7 (c). On October 1, 2002, the Company adopted the Canadian Institute of Chartered Accountant's new recommendations on stock-based compensation and other stock-based payments. Under these recommendations, which are effective for stock based compensation issued on or after January 1, 2002, and which are not required to be applied retroactively, the Company is not required to record compensation expense for stock-based compensation awards granted to employees, except for employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity investments.

The Company accounts for employee stock options using the intrinsic value method. Consideration paid by employees on exercise of the stock options is recorded as share capital.

2. Significant Accounting Policies - continued

(xi) Contributed surplus

As a result of the correction of 2000 and 2001 transactions involving the Company, its 68% parent, Proprietary Industries Inc. ("Proprietary") and Hampton Court Resources Inc. ("Hampton Court"), the balance due to Proprietary as of September 30, 2002 has been reduced. This reduction was treated as a contribution of capital and is recorded as contributed surplus in the attached consolidated balance sheet.

(xii) Translation of foreign currencies

Transactions denominated in foreign currencies are translated using the temporal method whereby:

(i) monetary items are translated at the rate of exchange in effect at the balance sheet date.

(ii) non-monetary items are translated at historical exchange rates.

(iii) income and expenses items, other than amortization, are translated at the average exchange rates for the year.

(iv) exchange gains or losses arising from the translation of current monetary items are included in the determination of net loss.

(v) amortization is translated using the same rates as the assets to which they relate.

(xiii) Earnings per share

Diluted earnings per share is calculated using the Treasury Stock Method whereby it is assumed that proceeds on the exercise of stock options are used to repurchase Company shares at the weighted average market price during the period.

3. Notes Receivable

		2003		2002
Former directors	$	220,025	$	220,025
Less: Write-down to estimated net realizable value		(220,025)		(220,025)
	$	-	$	-

The notes from former directors are unsecured, bear interest at 7% per annum, and have no specified terms of repayment. These notes arose in connection with the exercise of options (Note 7). Due to the uncertainty of the collectability of these amounts, the Company has written down these amounts to their estimated net realizable value. If repayment occurs, a recovery will be included in income.

4. Long-Term Investments

		2003		2002
Golden Phoenix Minerals, Inc. ("GPXM")	$	**1,091,889**	$	1,442,017
Skylark-Ranger Resources Inc.		**-**		31,016
		1,091,889		1,473,033
Less: Marketable securities		**(1,091,889)**		(467,680)
Valuation allowance		**-**		(31,016)
Balance, September 30	$	**-**	$	974,337

The investment in GPXM consists of 3,848,043 (2002 - 5,077,791) common shares, representing approximately 4% (2002 - 7%) of the issued and outstanding shares. During the year the Company sold its warrants of GPXM to independent investors for a gross proceed of $56,070 U.S. At year-end, the trading value of GPXM was U.S.$0.45 (2002 – U.S.$0.31) per share. The Company intends on selling all of its shares thus the investment has been classified as marketable securities. An estimated unrealized gain of approximately $1.2 million has not been reflected in the accounts at September 30, 2003.

5. Mineral Properties and Deferred Costs

Mineral properties and deferred costs consist of:

	2003			
	Balance, Beginning of Year	**Net Additions**	**Abandoned or impaired**	**Balance, End of Year**
Zeballos	$ 922,800	$ 105,189	$ (827,989)	$ 200,000

	2002			
	Balance, Beginning of Year	**Net Additions**	**Abandoned or impaired**	**Balance, End of Year**
Zeballos	$ 830,475	$ 92,325	$ -	$ 922,800
Chocolate Peak	1,485,060	85,150	(570,210)	-
Cala Abajo	647,210	15,743	(662,953)	-
Wild Irishman	243,532	-	(243,532)	-
Four Metals Copper	81,168	30,580	(111,748)	-
Mineral Ridge	-	45,567	(45,567)	-
General exploration	-	31,959	(31,959)	-
	$ 3,287,445	$ 301,324	$ (2,665,969)	$ 922,800

6. Related Party Advances and Transactions

a) Advances from related parties consist of:

i) Parent company

The parent company, Proprietary, owns 68% of the issued and outstanding shares of the Company. Proprietary has agreed to the cancellation of the 2,582,875 common shares it owns in escrow (see Note 7). As a result of the cancellation, Proprietary will only own 53% of the remaining common shares. Advances are unsecured, bear interest at 10% per annum and have no fixed terms of repayment.

ii) EnerGCorp, Inc.

EnerGCorp, Inc. is related by virtue of common management and is a wholly-owned subsidiary of Proprietary. Advances are unsecured, non-interest bearing, have no fixed terms of repayment, and are payable in US dollars in the amount of $1,490,856 at September 30, 2003 ($1,652,129 – September 30, 2002).

b) Related party transactions, in addition to the write-off of the notes receivable as described in Note 3, consist of:

i) During the year, the Company incurred charges of $36,876 (2002 - $111,913) to directors and companies controlled by directors and former officers and directors in exchange for professional services. Of this amount $5,713 (2002 - $Nil) is in accounts payable at year end.

Of this amount, $25,814 (2002 - $73,529) has been recorded as consulting fees, and $11,062 (2002 - $38,384) as mineral properties and deferred costs.

ii) During the year, the Company paid $3,000 (year ended September 30, 2002 - $3,000) to Proprietary for rent included in office expense.

The transactions were recorded at the exchange amount which was the amount established and agreed to by the related parties.

7. Share Capital

(a) Authorized
Unlimited number of common shares

(b) Issued

	Number		Stated Value
Balance, September 30, 2001	7,663,694	$	4,987,432
Exercise of stock options	615,000		246,000
Balance, September 30, 2002 and 2003	8,278,694		5,233,432
Escrowed shares to be cancelled	(2,582,875)		-
Un-escrowed balance September 30, 2003	5,695,819	$	5,233,432

7. Share Capital - continued

(c) Stock options

The Company may grant stock options to employees, officers, and other individuals who are not employees of the Company as determined by the Board of Directors.

A summary of the status of the Company's stock options as of September 30, 2003 and 2002 and changes during the years then ended is as follows:

	2003		2002	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	75,000	0.72	765,000	$ 0.46
Granted	-	-	-	-
Exercised	-	-	(615,000)	0.40
Expired/cancelled	(75,000)	-	(75,000)	0.69
Outstanding and exercisable, end of year	-	$ -	75,000	$ 0.72

(d) Escrow shares

At September 30, 2003, 2,582,875 common shares were held in escrow releasable as to:

i) one share for each $0.86 of deferred expenditures incurred on the Chocolate Peak, Wild Irishman and Zeballos properties. Based on previous expenditures, approximately 122,134 shares could have been released.

ii) all of the shares upon provision of a Level 4 Feasibility Study satisfactory to the TSX Venture Exchange and supporting a value of the above properties of at least $3,932,750.

All of these shares are owned by Proprietary, Proprietary has agreed to have these shares cancelled.

(e) Earnings per share

Net earnings (loss) per share has been calculated using the weighted average number of common shares outstanding during the year of 8,278,694 (2002 - 8,037,502).

8. Income Taxes

a) Significant components of the future income tax asset at September 30, 2003 and 2002 are as follows:

		2003		2002
Mineral properties and deferred costs	$	986,158	$	1,039,305
Non-capital loss carryforwards		562,426		661,433
Other		22,776		24,071
Valuation allowance		(1,571,340)		(1,724,809)
	$	-	$	-

b) Income taxes (recovery) differ from that which would be expected from applying the effective Canadian federal and provincial tax rates of 37.37% (2002 - 42.12%) to loss before income taxes as follows:

		2003		2002
Expected income taxes (recovery)	$	(162,096)	$	(1,185,140)
Write-off of exploration and development expenditures		309,444		1,075,396
Use of operating losses carried forward		-		(97,033)
Use of mining property tax pools		-		(311,910)
Change in valuation allowance		(188,559)		-
Exempt portion of capital gains		(24,673)		-
Other		(15,564)		(32,656)
Large corporations tax (recovery)		26,173		2,455
Adjustment for change in enacted income tax rates		62,666		
Tax losses at current year not recognized		2,498		
Income taxes (recovery)	$	9,889	$	(548,888)

c) The Company has available mineral property tax pools of $3,873,486. The Company also has the following non-capital loss carryforwards, for which no benefit has been recognized in the financial statements, and which expire as follows:

2004	$	186,507
2005		294,048
2006		398,686
2009		574,903
2010		206,679
	$	1,660,823

9. Statement of Cash Flows

The change in non-cash balances related to operations is comprised of the following:

		Year ended September 30, 2003		Year ended September 30, 2002
Decrease in accounts receivable	$	4,526	$	6,390
Decrease in prepaid expenses		3,742		7,624
Increase (decrease) in accounts payable and accrued liabilities		13,505		9,940
Increase in income taxes payable		9,889		-
	$	31,662	$	23,954

The following cash payments have been made during 2003:

Income taxes paid	$	9,754	$	10,983

10. Restatements

The September 30, 2002 audited financial statements contained a misstatement in the cash flow statement by not reflecting a cash inflow of $700,515 from the collection of Notes Receivable under “Investing Activities”, and misstating the cash outflows under “Financing Activities” for advances repaid to the parent company in an equivalent amount. The Consolidated Statements of Cash Flows for the year ended September 30, 2002 has been restated to reflect this correction.

11. Segmented Information

The Company has one industry segment, the exploration and development of mineral properties. The Company has reportable segments based on its operations in different geographic areas: Canada, the United States and Puerto Rico.

Earnings (loss) by reportable segment being mineral properties abandoned or impaired, net of gain on disposition of assets by segment:

	Canada	United States	Puerto Rico	Total
2003	$ (851,324)	$ 217,629	$ -	$ (633,695)
2002	$ -	$ (1,874,851)	$ (662,953)	$ (2,537,804)

	2003	2002
Total loss by reportable segment	$ (633,695)	$ (2,537,804)
Other income (expenses), net	199,970	(434,408)
Income (loss) before taxes	$ (433,725)	$ (2,972,212)

Total assets by reportable segment:

	Canada	United States	Total
2003			
Mineral properties and deferred costs	$ 200,000	$ -	$ 200,000
Total assets by reportable segment	361,964	1,091,889	1,453,853
2002			
Mineral properties and deferred costs	922,800	-	922,800
Total assets by reportable segment	$ 1,186,674	$ 1,442,017	$ 2,628,691

	2003	2002
Total assets by reportable segment	$ 200,000	$ 922,800
Other assets	1,253,853	1,705,891
	$ 1,453,853	$ 2,628,691

12. Commitments

Pursuant to a purchase agreement dated October 15, 2001 to acquire 12 crown-granted mineral leases at Zeballos, the Company is committed to:

a) a 1% net smelter royalty, to a maximum of $250,000, payable from gold production to Newhawk Gold Mines Limited, and

b) 10% of gross revenues from the sale of timber from properties payable to J. Prochnau & Co,.

13. Financial Instruments

a) Currency risk

The Company is exposed to currency risk to the extent that the payment of certain US denominated accounts payable and advances from EnerGCorp, Inc. are subject to fluctuations in the related foreign exchange rate.

b) Interest rate risk

The Company is exposed to interest rate price risk to the extent that advances from parent company bear a fixed rate of interest.

c) Fair values

The fair values of accounts receivable, accounts payable and accrued liabilities and advances from parent company approximate their carrying values due to the short-term nature of these instruments or they bear interest at market rates.

The fair value of notes receivable and advances from EnerGCorp, Inc. are not practicable to determine since the Company would not enter into similar transactions in the absence of these relationships.

The fair value of marketable securities and investment in GPXM is disclosed in note 4.

The Company receives administration services from its parent, Proprietary, for which no value has been recorded in these consolidated financials statements. The fair value of these services is not practicable to determine because of this relationship.